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MEMORANDUM FOR: IWG

SUBJECT : Japanese Security Export Controls on Trade
with China - 1945/1952

The attached Working Paper is intended as background information on Japanese export controls, with emphasis on current CHINCOM problems.

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Executive Secretary

DOC Waiver Letter In ERU File

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JAPANESE SECURITY EXPORT CONTROLS ON TRADE WITH CHINA - 1945-1952

I. Japanese Export Controls Under SCAP

The United States assumed the responsibility for a relief and economic recovery program in Japan following its surrender in 1945. It was quickly recognized by SCAP (Supreme Commander of Allied Powers) and interested agencies in Washington that trade between Japan and China (then non-Communist) was essential to the economic welfare of Japan. By 1949, however, when Japan was again in a position to export goods in significant quantity, the Chinese mainland had come under Communist control and for security reasons, it was important that strategic goods should not be permitted to flow to that area. The United States policy, as determined by SCAP in December 1949 and January 1950, therefore, provided that exports of primary strategic items (then called 1A) were to be prohibited to the Soviet Bloc and China, and shipments of secondary strategic commodities (then called 1B) to these areas were to be screened and strictly limited.

On June 25, 1950, immediately following the outbreak of the Korean War, exports to Communist China of all goods of a strategic nature, were prohibited. This expanded the embargo to include all 1B items. Shipments of 1A items to Hong Kong were prohibited (as had previously been the case), and exports of 1B items were limited to requirements for consumption within the Colony. Consumer goods and other items regarded as non-strategic continued to flow to China and Hong Kong thereby enabling Japan to procure a moderate quantity of essential foods and industrial raw materials from China.

On 6 December 1950, with the entry of Chinese Communists into the Korean War, the Japanese Government banned exports to China, North Korea, Hong Kong and Macao of all raw materials and semi-processed and manufactured goods which were previously subject to export license. During December 1950 and January 1951, Japanese export controls were further tightened by enlarging the Japanese Export List of items banned to China and by requiring Essential Supply Certificates from Hong Kong for any controlled items to be shipped to that area, verifying that they were for essential use in Hong Kong and not for transshipment to other areas. Goods landed in Japan for transshipments were also made subject to export licensing.

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Since January 1951 the list of commodities subject to Japanese licensing controls has been increased several times and now includes virtually all commodities except the following: foodstuffs (other than staples), raw silk, silk fabrics, woolen fabrics, bicycles, household-type sewing machines, watercraft under 18 feet, hand-powered agricultural machinery, hand-operated office machinery, household utensils, toys, stationery supplies, cigarette paper and Japanese handmade paper, some cellophane products, household remedies, and miscellaneous adornments for personal use. All trade between Japan and Communist China was conducted on a barter basis for which SCAP approval was required.

In March 1951, the general question of Japan's export controls was reviewed by telegrams between SCAP and the Departments of State, Treasury and Army. It was decided that because of the prospective peace settlement it would be politically undesirable to compel Japan to impose more restrictive export controls than those in force at that time unless additional measures were recommended by the United Nations or adopted by other major free countries.

Since this exchange of views, the United Nations has passed a resolution calling for its members to prohibit trade with China in certain categories of goods. In addition, the United Kingdom, Hong Kong, and countries of Western Europe have substantially increased their controls over trade with China, but they are still less restrictive than those of Japan. (See Attachment I).

II. Post-Peace Treaty Developments

SCAP control was relinquished in April 1952. By that time the pressure of the Japanese business community strongly favored the relaxation of controls on trade with China. The United States' view was that the maintenance of strong security controls by Japan would be more likely if Japan were associated with other free nations in the control effort. To this end a US exploratory technical mission visited Japan for discussions necessary to assure continuity of Japanese export controls following the Peace Treaty.

At the same time discussions were being held by the UK, French, and US delegates to COCOM as to (1) whether to bring up before that body the matter of Japanese membership in COCOM which the Japanese had indicated as desirable; or (2) whether a special Pacific area group (including Japan) designated to handle Far Eastern trade problems only, might not be more effective. The Japanese, although preferring COCOM membership, were agreeable to the second proposal providing the group be designated as a COCOM sub-committee sitting in Paris.

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For a thorough and detailed discussion on this subject, a conference which included representatives from the US, Canada, France, Japan, and the United Kingdom was held in Washington on 28 July 1952 to consider means of achieving the closest cooperation on export control policy among the principal countries concerned with Far East trade. Prior to that meeting, the position of the U.S. Government with respect to the multilateral economic security program in the Far East was set forth by the Steering Group of the Economic Defense Advisory Committee and sent to the various members of the conference for consideration and comment, as follows:

1. There would be a Far East Consultative Group (FE-CG) parallel to the existing Consultative Group which would be redesignated the European CG (E-CG), with representation on the ministerial level. There would be a Far East Coordinating Committee (FE-COCOM) on a level equivalent to the existing COCOM which would be redesignated the European COCOM (E-COCOM). Both the FE-CG and FE-COCOM would include countries having an important interest in Far Eastern economic security problems and would be represented in the FE-COCOM by officials having special competence in Far Eastern matters.

2. Membership of the FE-CG would include the countries which have an important interest in Far East economic security problems and should include at least Japan, the United States, the United Kingdom, Canada and France. Invitations should be extended to potential members as soon as agreement had been reached at the Five Power Meeting.

3. The FE-CG would have the jurisdiction on a policy level over economic security problems having an important Far Eastern aspect. The FE-COCOM would operate on a working level within the framework of policy decisions made by the FE-CG or directives provided by that group. It would be responsible for working out in detail the economic security measures to be applied by its membership in Far Eastern trade.

It was proposed that in order for the organization to function most effectively there would have to be a general operating arrangement for assuring coordination of decisions and that any decisions reached unanimously in either Committee (FE or E) would immediately be put into effect. The US further proposed that one of the first tasks with which the Far East COCOM should deal would be a critical review of the control lists for all FE-COCOM countries and of E-COCOM with a view

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of developing a list which best meets the problem of restricting Chinese military activity and war potential.

The reactions of the visiting members of the Five Power Conference to the United States' position were varied and the following replies were received before the opening of the Conference:

1. The British felt that since Japan had requested admission to COCOM and was to be a member of the free world, membership in that organization should be granted.

2. Canada's reaction to the establishment of a separate Far East policy group and operating committee was that such separation was of doubtful value, possibly involving duplication of facilities in the existing CG-COCOM. The geographic division of the administration of security export controls was viewed by Canada as essentially indivisible, irrespective of areas involved.

3. French views of the US position were equally negative. They felt that a special FE group would have serious political aspects which they considered adverse since such a group was unlikely to include major FE and Southeastern Asian countries such as India, Pakistan, Burma, Ceylon and perhaps Siam. The group would in that case appear to be a white man's organization with only a slight color tint from Japan and with the inevitable strains and misunderstanding as to western powers' intentions in the Far East. The official French position, therefore, was firm and definitely adverse to the establishment of a special Far East Group.

4. Japan preferred to join the existing Paris organization in order to "identify the Japanese Government with an established control structure, thus avoiding local political criticism that a special body was created to solidify the present level of Japanese Controls".

When the conference convened in July 1952, discussion was confined to the organizational question of whether to place Japan in the existing Paris group or a new Far East group. US and UK/French views were fully discussed. By 2 August a compromise was effected and it was agreed by members of the conference that Japan should be invited to join the existing CG and the COCOM. It was further agreed that a permanent working group termed the "China Committee" should be set up by COCOM to assume the responsibility for the development of the detailed aspects of the security

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export control policy relating to China as laid down by the CG and for putting such policy into effect. The type of problem to be handled by the China Committee would include such subjects as suitable for consideration in the security export control context as: (1) lists of items denied to China alone; and (2) shipping and transshipment questions relating to China trade within the export control framework. The intention would be to deal speedily and efficiently with problems relating to China and to confine the need for consideration by COCOM to problems which involve both the European Satellites and China.

Permanent membership of the China Committee would consist of those countries having a substantial interest in trade with China, with other countries participating in deliberations and decisions of the Committee with respect to any issue in which they have a legitimate interest. This proposal was acceptable to all members and a cable to that effect was sent to COCOM member-countries on 2 August.

Upon arrival for the conference the Japanese had assumed that the level of Japanese export controls would be discussed. They were informed that this was not a proper subject for discussion and immediately requested bilateral talks on that subject following the conference. During these talks, Japan was urged to maintain its present controls which were substantially more restrictive than the present multilateral COCOM controls regarding China trade. It was pointed out that a significant relaxation of Japanese export controls in respect to China would present a grave problem for the US. The specific agreements resulting from these bilateral discussions are summarized as follows:

1. All commodities on any International Control List shall be embargoed.
2. Commodities included in any US Security List (including Battle Act Lists) but not on International Lists continue to be embargoed. (In reference to the above two paragraphs, Japan will continue to embargo all items on these lists, at least as long as there is Communist aggression in the Far East.)
3. Commodities on the list attached to the Japanese Export Trade Control Order, but not on the above lists shall be controlled in one of the following ways:
 - a. Items readily determinable as of strategic significance to China will be embargoed. This list will be composed of items being considered in COCOM for embargo to China which are not on any control list but which the

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two governments of the US and Japan may agree should be embargoed to China. Where proposed shipments of any such items would involve their exchange for items of character and quantity of such importance to the basic economy of Japan as to clearly represent a favorable exchange, such transactions would be the subject of bilateral discussion by Japan and the US prior to any definitive action by the Japanese Government.

b. Items suspected to be of strategic importance to China or concerning which there is uncertainty as to the strategic importance to that country will be licensed to China only upon review of individual transactions by the Japanese government and under strict quantitative control, or where goods received in exchange clearly would contribute to the basic economy of Japan or to the defense production of the free world. The US and Japanese Governments will exchange information periodically as to the shipment of these items to Communist China.

c. Items which are determined to be of limited, if any, strategic importance to China will be licensed for export to China by Japan within reasonable quantities so as to exclude their use by Communist China for conversion to direct or indirect military support uses. A periodic exchange of information on shipment of these goods to China will be effected.

After lengthy discussion, the following general understanding between the US and Japan concerning the control of exports to Communist China were finally set forth:

1. It is recognized by both parties that determinations of strategic significance involve constant review of commodities in their relationship to specific areas under varying conditions. It is understood that neither the US Security Lists nor the International Control Lists as approved or under consideration reflect a detailed technical analysis of the strategic worth of goods as they apply to Communist China, such lists having been developed primarily against the economies of East European countries which are not in open conflict with free world military forces.

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2. Commodities not now covered by US Lists or by any International Control List will be reviewed to determine, at the earliest possible date, the strategic significance of the various items to Communist China. International (multilateral) consideration involving all countries with substantial Far Eastern interests will be begun in order to arrive at determinations with respect to the strategic importance of commodities to Communist China.

3. As a preliminary step and to meet the immediate problem facing Japan, the Japanese Government will examine jointly with the US these residual items in order to make a tentative estimate of their strategic importance to China. (The first tangible result of discussions under agreement 3(b), was the US agreement for Japan to ease controls on wool knit goods, textile machinery, dyestuff and paper to the extent that items in those categories are not on security lists.)

4. It is understood that the Japanese Government will continue to embargo to Communist China all items on International Lists and any US Security Control Lists at least as long as there is Communist aggression in the Far East.

5. Taking into account any relevant discussions in the China Committee (CHINCOM) with respect to the list of items which should be controlled to China alone, the US and Japan, upon request of either government, will review the items described in agreements 3 (a), (b), or (c) in order to arrive at definitive determinations. In no event will Japan be required to take the action referred to in agreements 3 (b) or (c) in cases where COCOM has made different determinations from those tentatively agreed upon as stated in those paragraphs.

6. For action under agreement 3 (a) the initial list will be composed of the items being considered in COCOM for embargo to China which are not on the International Control Lists or the US Security List and such items as the two governments agree should be embargoed on the basis of a review of uncovered commodity areas to be undertaken by technicians of the two governments.

Commodities on the Japanese Control List which will not have been covered by the US Security Lists, the International Lists or as indicated in the preceding paragraph, will be reviewed by the Japanese Government and recommendations made as to the control of such items under agreements 3 (b) and (c). These recommendations will be discussed by the two governments. During the period of examination and discussion the Japanese will treat all these commodities under the provisions of 3 (b).

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The U.S. Department of Commerce, in accordance with agreement 3 (a), prepared a tentative list of 400 commodities of strategic significance to China for embargo by Japan. This list was subject to review by the Japanese Government and US agencies prior to joint agreement on its final content. Except for finally agreed commodities on this list and those on US Security Lists, the Japanese Government may exercise administrative discretion in exports to Communist China subject only to quantitative limitation and informing the US of its action.

When this understanding was established between the two governments, a secret agreement was initialled by Japan and the US on 5 September 1952 under which Japan was committed to embargo:

1. All goods enumerated in any International Control Lists.
2. All items on US Security Lists which are not on International Control Lists.
3. A list of additional items to be mutually agreed upon by the US and Japan.

This leaves a considerable number of items which Japan can transfer from the Japanese list of embargoed items to the list of items which can be exported only with the permission of the Japanese Government in exchange for items essential to Japanese economy. These are items remaining after careful screening to insure as far as possible the inclusion on control lists of any items which could contribute to the military potential of Communist China. Under this bilateral agreement signed by the two governments, Japanese export controls of trade with Communist China remain more strict than those of any other nation except the US, Nationalist China, Canada, South Korea, Philippines and Indochina.

The Japanese Government reportedly has no intention of modifying controls until the list of commodities to be embargoed is finalized. It is expected that this will take place after Japan has been seated in COCOM for a period of a few months. In the meantime, however, Japanese reaction to the list of approximately 400 commodities for embargo to China indicated that only about 127 of these items were questioned. The acceptance of about 68% of the list, including most of the major items, was most gratifying. The questioned items fall into two groups: (1) Those products, such as textiles, which are now not under export control and were not subject to control at the close of SCAP's administration.

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The Japanese Government does not want to increase the extent of its present export restrictions and also claimed that of these items, any "war material" and "ingredients for their manufacture" are subject to MITI (Ministry of International Trade and Industry) license controls. There is, however, no specific list of items and the embargo and the definitions of war material and ingredients are matters of administrative determination. (2) The other group of commodities to which the Japanese object are those which they claim have little or no strategic value and which are all freely imported from other countries by Hong Kong and re-exported to China. It is believed that the Japanese are making a sincere attempt to cooperate with the United States with respect to the 400 item list but there are some items among them which the Japanese are convinced are not so highly strategic as to warrant specific control under agreement 3(a). This list is still under revision with the United States attempting to meet the Japanese position to the extent warranted by our international security control policies.

ATTACHMENT I

CONTROLS TOWARD CHINA (JANUARY 1953)

Commodity Lists	COCOM	JAPAN	US
International Munitions Lists	Embargo	Embargo	Embargo
" List I (I/L I)	"	"	"
" " II (I/L II)	"	"	"
" " III (I/L III)	"	"	"
UK Supplementary List <u>1/</u>	Selective Embargo	"	"
US Lists			
Atomic Energy Commission List	Embargo	"	"
US I (identical with I/L I)	"	"	"
US IA (24 items, some of which are on I/L II or I/L III)	Selective Embargo	"	"
US II (I/L II, excepting those already on IA)	"	"	"
US II B (" 2/	"	"
US IC	" 2/	"	"
Short Supply Items on the US Positive List	" 3/	"	"
US Non-Positive List Items	" 3/	Quantitative Control <u>4/</u>	"

- 1/ The UK Supplementary List includes approximately 36 broad categories, of which only about 12 items have been accepted by CoCom for embargo to China at the present time. This list is supplementary to International Lists I, II and III and is embargoed by the UK. It is now being considered for embargo by all CoCom countries.
- 2/ Some US IIB and US IC items fall on I/L III in which case they are embargoed. Likewise if they fall within the items of the UK Supplementary List agreed to by CoCom, they are embargoed.
- 3/ CoCom PC's may embargo certain of these items unilaterally.
- 4/ About 400 commodities, including certain additional items (both raw materials and manufactures) which fall under such categories as: rubber, pharmaceuticals, metals, textiles, machinery, transportation equipment, scientific instruments, industrial chemicals, photographic goods, etc.